

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF )  
BIRCHWOOD SEWAGE PLANT )  
OWNER-SIMPSON CONSTRUCTION ) CASE NO. 8217  
COMPANY )

O R D E R

On April 13, 1981, Birchwood Sewage Treatment Plant ("Birchwood") filed an application with this Commission requesting authority to increase its rates and charges by approximately \$30,426 annually. However, considering the number of customers at the end of the test period, the increase in revenue would be \$28,005 annually or 111.7 percent.

On April 16, 1981, the Consumer Protection Division of the Attorney General's Office filed a motion to intervene in this proceeding, which was sustained.

A hearing was held at the Commission's offices in Frankfort, Kentucky, on August 12, 1981. At the conclusion of the hearing and following responses to all requests for additional information, the matter was submitted for final determination.

Commentary

Birchwood Sewage Treatment Plant is a privately-owned sewage treatment system serving approximately 380 customers in Jefferson County, Kentucky.

### Test Period

Birchwood proposed and the Commission has adopted the 12-month period ending December 31, 1980, as the test period for determining the reasonableness of the rates approved herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

### Revenues and Expenses

Birchwood proposed several adjustments to revenues and expenses as reflected on its Comparative Income Statement, Exhibit 8. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

(1) The Commission has reduced Birchwood's repairs and maintenance expense by \$535 for the installation of an alarm on the lift station, by \$439 for a major repair of a blower and by \$196 for a major repair of a motor. The repairs were nonrecurring and would extend the useful lives of the blower and motor. The alarm should have been capitalized rather than expensed. Therefore, the Commission has made an adjustment to increase depreciation expense by \$54 for the alarm and amortization expense by \$127 for the repairs to the motor and blower.

(2) Birchwood proposed an adjustment of \$1,644 to the operating service fee. The increase resulted from a change in operating companies during the test year and additional services required for the new plant. The adjustment included an allowance

of \$109 per month for overtime charges in addition to an \$850 per month service fee. The overtime incurred during the test year was the result of maintenance problems on the old plant, which have been eliminated. The Commission has, therefore, excluded the portion of the expense associated with overtime, reducing the adjustment to \$329.

There is no written contract for the services provided under the maintenance agreement with Butler Construction Company. The Commission is of the opinion that Birchwood should obtain a written contract with Butler Construction Company setting forth all routine maintenance services provided for the monthly fee of \$850.

(3) Birchwood proposed to include income tax expense in the amount of \$1,720 based on the requested rate increase. The Commission has allowed an expense of \$1,526 for income taxes based on the revenue and expenses found reasonable herein.

(4) The Commission has adjusted test year revenues by \$2,421 to reflect the annual revenue based on the level of customers at the end of the test year.

(5) Birchwood proposed an adjustment of \$667 for rate case expenses for engineering services. The adjustment was based on the amortization of an estimated \$2,000 fee over a 3-year period. The actual rate case expenses were approximately \$1,200. Therefore, the Commission has reduced the expense to an adjusted amount of \$400 based on a 3-year amortization period.

Based on the allowed pro forma adjustments, Birchwood's test period operations appear as follows:

	<u>Actual 12/31/80</u>	<u>Pro forma Adjustments</u>	<u>Adjusted Test year</u>
Operating Revenues	\$ 22,659	\$ 2,421	\$ 25,080
Operating Expenses	43,451	(2,008)	41,443
Net Operating Income	<u>\$(20,792)</u>	<u>\$ 4,429</u>	<u>\$(16,363)</u>
Interest Expense	10	2,497	2,507
Net Income	<u>\$(20,802)</u>	<u>\$ 1,932</u>	<u>\$(18,870)</u>

The Commission is of the opinion that the operating ratio<sup>(1)</sup> of 88 percent proposed by Birchwood is fair, just and reasonable and should be used in this case. It will permit Birchwood to pay its operating expenses, service its debt and provide a reasonable return to its owners. Therefore, the Commission finds that Birchwood is entitled to increase its rates to produce total revenues of \$49,601 which will require an increase in revenues of \$24,521 annually.

#### Summary

The Commission, after consideration of the evidence of record, finds that:

(1) The rates proposed by Birchwood would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rates in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for sewage service rendered by Birchwood and will permit it to meet reasonable operating expenses and accumulate a reasonable surplus for equity growth.

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(1) Operating Ratio=  $\frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenue}}$

IT IS THEREFORE ORDERED that the rates in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for sewage service rendered by Birchwood on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Birchwood are hereby denied.

IT IS FURTHER ORDERED that Birchwood shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

IT IS FURTHER ORDERED that Birchwood shall obtain a written contract with Butler Construction Company setting forth the services provided under the maintenance agreement and shall file a copy of the contract with this Commission within 30 days from the date of this Order.

Done at Frankfort, Kentucky, this 3rd day of November, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs  
Chairman

Katherine Randall  
Vice Chairman

Jim Carver  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC  
SERVICE COMMISSION IN CASE NO. 8217  
DATED NOVEMBER 3, 1981

The following rates are prescribed for all customers in the area served by Birchwood Sewage Treatment Plant. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

Customer Category

Single Family Residential	\$ 10.88
Institutional	
Fern Creek Church of Christ	\$ 10.88